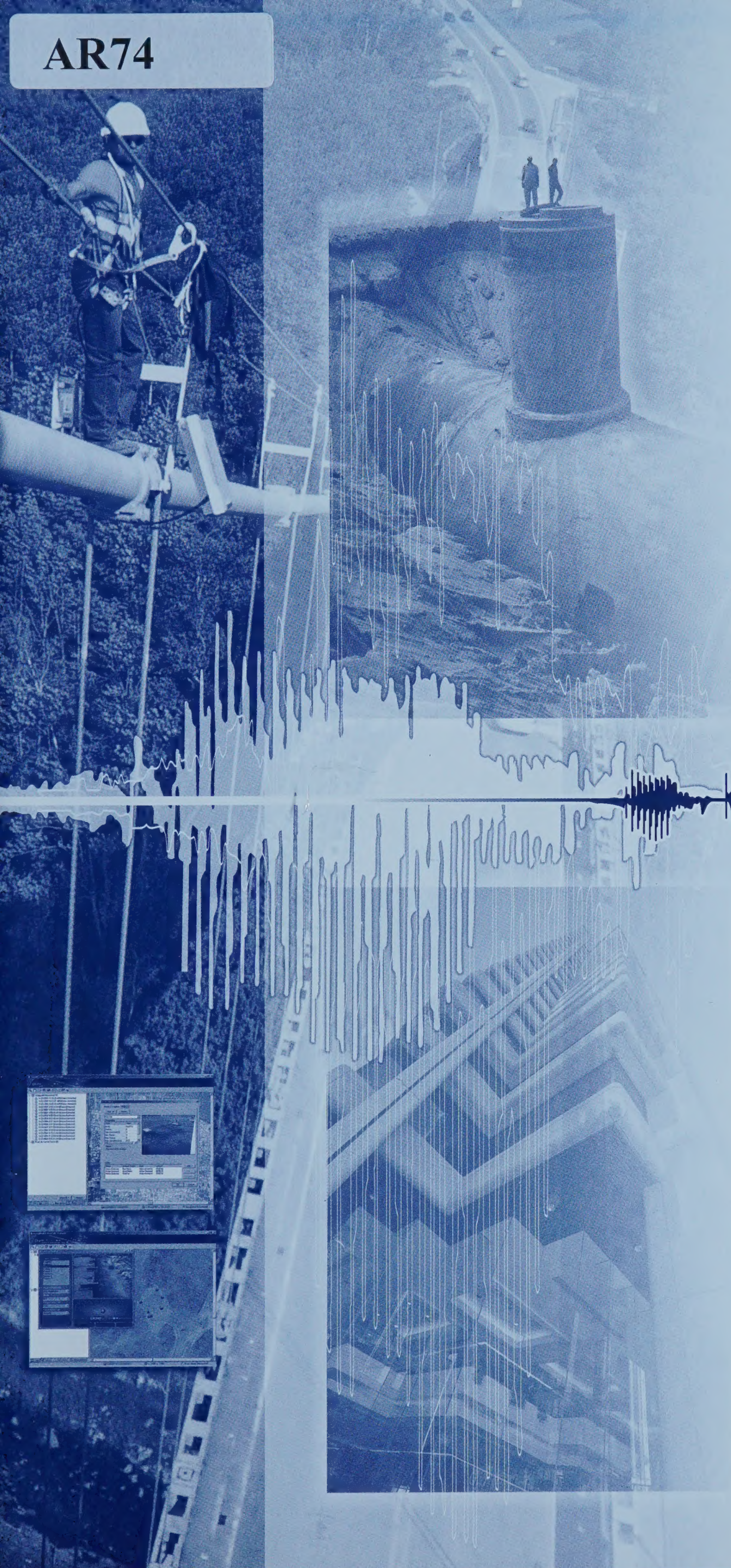


pure
TECHNOLOGIES LTD

2003 ANNUAL REPORT

Corporate Profile

Pure Technologies Ltd. is an international technology company which has become a world leader in providing information and communications technology for infrastructure management and surveillance.

Pure has developed a suite of complementary technologies which provide infrastructure owners with comprehensive state-of-the-art management information. Pure designs and provides systems and continuing remote monitoring and technical support from its headquarters in Calgary, Canada, its U.S. subsidiary, and through a strategic partnership overseas.

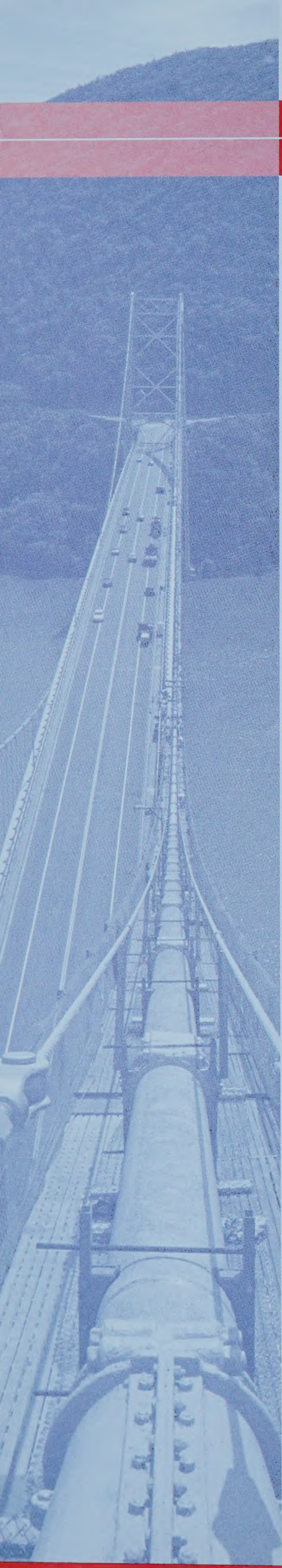
Pure Technologies Ltd. trades under the symbol "PUR" on the TSX Venture Exchange

soundprint®
Acoustic Monitoring

SoundPrint® purelink®
Infrastructure Surveillance Technology

p•wave®
Electromagnetic Inspection

Contents



Message to Shareholders

"Pure Technologies Ltd. continued to make good progress in expanding its revenue base in 2003. The prospects for 2004 are excellent."

Through aggressive marketing and the introduction of new products we have succeeded in procuring a significant amount of work for 2004, and our order backlog at the end of 2003 was at a record level. In fact, we have secured over $4 million in new contracts, compared to less than $1 million at the end of 2002. Of the $4 million, approximately $2 million consists of recurring technical support and monitoring revenue. This is a record achievement for the company and bodes well for the future.

Some "firsts" in 2003 included:

- The first wireless SoundPrint bridge-monitoring system on the Waldo Hancock Bridge in Maine
- The first wireless SoundPrint pipeline-monitoring system for Middlesex County Utilities Authority in New Jersey
- The first SoundPrint installation on a new bridge at Wacker Drive in Chicago, Illinois
- The first PureLink surveillance system for the City of Phoenix
- The first SoundPrint system in Asia – on the Penang Bridge in Malaysia

All of these projects feature the innovative thinking and engineering excellence in which we take pride.

In order to manage the anticipated workload and to position ourselves for future growth, we are planning to add to our marketing and pipeline operations resources in the U.S. We will also be looking at expanding the marketing for PureLink and SoundPrint in the energy pipeline sector and elsewhere. We will be working closely with our strategic partners to increase our revenues from international markets, including Japan. We will continue our emphasis on focused research and development to improve our existing technologies and to develop innovative new infrastructure management solutions. Subsequent to year-end, we completed a $3 million private placement to finance these initiatives and to provide working capital for anticipated project activity.

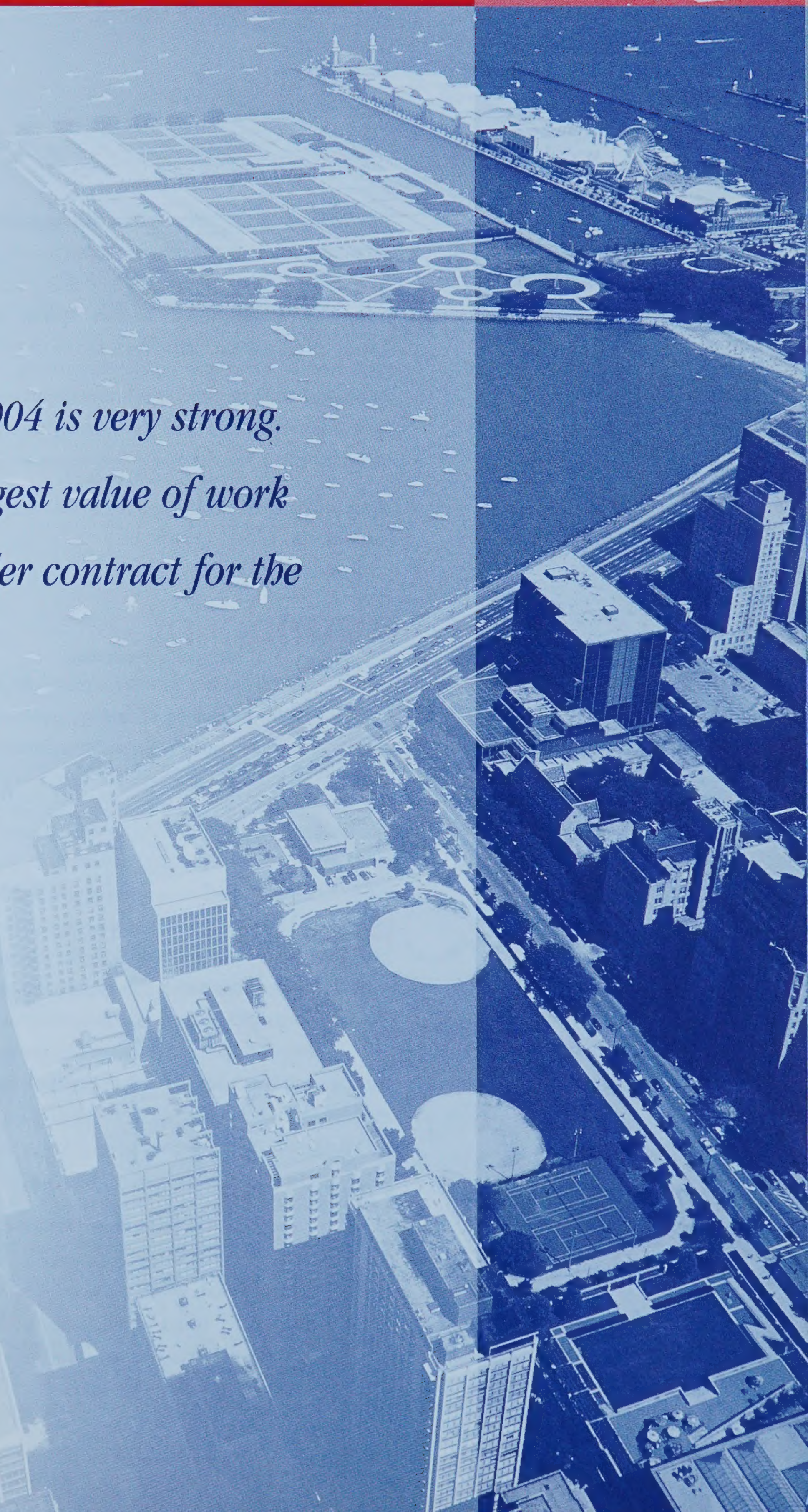
We have a strong team in place to set the stage for an exciting 2004. We would like to take this opportunity to thank our dedicated staff for their continuing contribution to the company's development and we look forward with confidence to the coming year.

Finally, we note with great sadness the passing of our Director and friend, John Fleming, on March 3, 2004. John was an original Director of Pure Technologies Ltd., and was also Chairman of the Audit Committee. His foresight and experience were invaluable and contributed greatly to the company's financial integrity. He is greatly missed.

Peter O. Paulson
President
Chief Executive Officer

John F. Elliott
Vice President and
General Manager

®Registered trademark, property of Pure Technologies Ltd.



"The outlook for fiscal 2004 is very strong. The Company has the largest value of work in its history already under contract for the upcoming year"

Management's Discussion and Analysis

This Management Discussion and Analysis for Pure Technologies Ltd. (Pure or the Company) should be read in conjunction with the Company's audited consolidated Financial Statements and accompanying notes. The consolidated Financial Statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and are reported in Canadian dollars. Further information, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com.

Pure specializes in the provision of innovative infrastructure testing, monitoring and surveillance technologies. Since its incorporation in 1993, the Company's activities have focused on applied research and development of the SoundPrint technology and then subsequently P-Wave and PureLink.

These technologies are provided in combination with each other or as individual solutions to a diverse range of clients.

soundprint®
Acoustic Monitoring

SoundPrint is a patented acoustic monitoring technology used to provide continuous remote health monitoring of bridges, pipelines, buildings, parking structures, nuclear containment structures, water tanks and other infrastructure components. As the initial technology of Pure, SoundPrint represents the Company's main product and largest proportion of revenues. Revenue is derived from initial system sales and subsequently from ongoing monitoring and technical support.

p•wave®
Electromagnetic Inspection

P-Wave is a patent-pending non-destructive testing technology that utilizes electromagnetic techniques to provide a "snapshot" of the condition of large-diameter prestressed concrete cylinder pipe used for water and wastewater transmission lines. Combined with SoundPrint it provides a comprehensive asset management package for managers and owners of this type of infrastructure.

SoundPrint® purelink®
Infrastructure Surveillance Technology

PureLink, Pure's newest commercialized technology, provides infrastructure owners cost-effective integrated surveillance and management tools with which to protect and enhance the value of their assets. Based on the development of SoundPrint acoustic and video systems, PureLink integrates and manages surveillance information from a variety of sources and sensors on different structures through a single universal interface.

Consolidated Annual Financial Results

Pure's net loss for the year ended December 31, 2003 was $1,065,000 ($0.08 per share – basic and diluted) compared to a loss of $1,345,000 ($0.11 per share – basic and diluted) in 2002. Contributing to the loss were lower than expected system sales, increased marketing and promotion expenses, increased general and administrative expenses and a large foreign exchange loss on foreign currency-denominated contracts and receivables.

Summary of Consolidated Financial Results

	Year Ended December 31		
	2003	2002	2001
Total Revenues	$ 4,829,739	$ 4,299,320	$ 3,659,128
Net Earnings (loss)	(1,065,294)	(1,345,153)	(2,434,569)
Net Earnings (loss) per share – basic	(0.08)	(0.11)	(0.19)
– diluted	(0.08)	(0.11)	(0.19)
Total Assets	3,488,700	3,686,245	5,739,722

Revenues

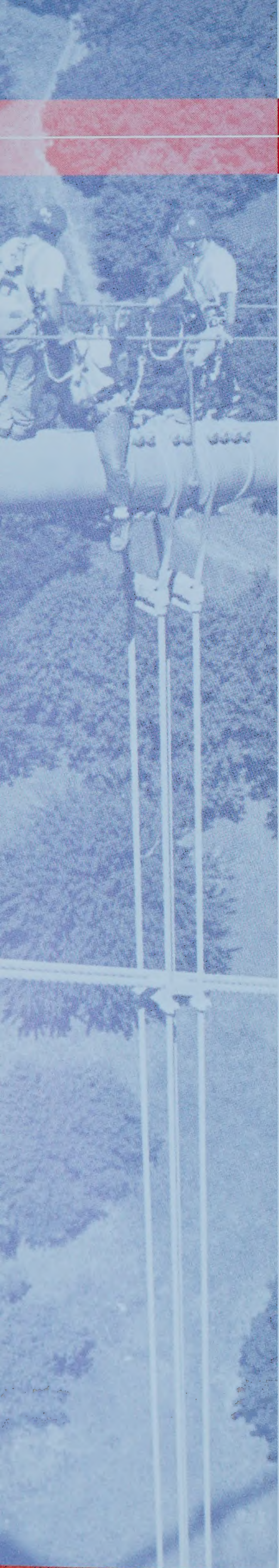
Revenues for the year ended December 31, 2003 were $4,830,000 in 2003 compared to $4,299,000 in 2002, an increase of 12.4%. Sales revenue, which includes SoundPrint system sales, PureLink system sales and P-Wave services increased 10.1% to $3,295,000 in 2003 from $2,994,000 in 2002. In addition, revenue from an unfinished large project in the United States was deferred at year end. Monitoring and technical support revenues increased to $1,534,000 in 2003 from $1,305,000 in 2002, or 17.5%. Monitoring and technical support revenues consist of revenue from long-term SoundPrint and PureLink technical support services and are recurring. Pure is now providing monitoring and technical support to over 40 installations worldwide.

Gross margin/cost of sales

Overall cost of sales decreased by $74,000 or 4.1% during 2003. With increased sales for the year, this resulted in gross margin of 64.4%, compared to 58.3% in 2002. The improvement reflects internal efficiencies, and improved margins from Pure's newest technologies, P-Wave and PureLink.

Marketing and promotion

Marketing expenses include salaries, commissions and bonuses earned by sales and marketing personnel, direct sales costs, promotional and advertising costs, and travel and entertainment expenses. Marketing expenses increased by $142,000 or 13.5% from the prior year, as new marketing resources were added. Further resources were added subsequent to year end and, combined with new marketing initiatives, will contribute to increased expenditures for 2004. Pure continues to market to overseas customers through a strategic partnership with Advitam, a subsidiary of Paris-based Freyssinet.



General and administrative

General and administrative expenses consist of salaries and related expenses for employees not directly related to marketing, research and development, or specific projects. General and administrative expenses also include head office operating expenditures. General and administrative expenses during the year increased to $1,996,000 from $1,791,000 in 2002, or 11.4%. This increase was the result of increased legal expenses resulting from Pure's claim against a U.S. company for patent infringement.

Research and development

Research and development expenses consist of technician, engineering and developer salaries, component costs and prototype expenses. For 2003, research and development expenditures were $295,000 compared with $578,000 in 2002. Expenditures related to P-Wave and PureLink were capitalized during the year as these technologies were fully commercialized, resulting in the decreased expenses. Pure expenses all new product development costs until a particular product's commercial viability is certain. Research and development continues to be a major focus of the Company. Multiple initiatives to both enhance current products and develop new complementary products and services are ongoing.

Depreciation

Depreciation and amortization expense for 2003 was relatively consistent with the previous year. An increase of $25,000 or 6.2% indicates that Pure continues to invest in capital infrastructure.

Foreign exchange

A large portion of the Company's revenue activities are generated through its wholly-owned U.S. subsidiary. In addition, a large portion of international contracts are or were denominated in U.S. currency. Accordingly, the Company is susceptible to foreign exchange fluctuations. A foreign exchange loss of $272,000 for the period was incurred compared with a foreign exchange loss of $36,000 for the prior year. A major recurring monitoring and technical support contract was renewed in Euros during the year, and other initiatives to minimize the effects of foreign exchange changes have been undertaken.

Consolidated Fourth Quarter Financial Results

Net loss for the fourth quarter of 2003 was $584,000 compared to a loss of $887,000 in 2002. Total revenue for the quarter was $1,131,000 compared with $656,000 in 2002. The improvement was the result of higher sales activity from the water and wastewater pipeline market and increasing recurring monitoring and technical support revenues. The following table provides selected comparative financial information relating to the Company's most recent eight quarters:

	2003 Quarter Ended			
	Mar 31	June 30	Sept 30	Dec 31
Revenues	$ 1,472,319	$ 1,335,783	$ 890,732	$ 1,130,905
Net Earnings (loss)	41,617	(55,435)	(467,130)	(584,346)
Net Earnings (loss) per share – basic	(0.00)	(0.00)	(0.04)	(0.04)
– diluted	(0.00)	(0.00)	(0.04)	(0.04)

	2002 Quarter Ended			
	Mar 31	June 30	Sept 30	Dec 31
Revenues	$ 1,630,950	$ 1,247,940	$ 764,388	$ 656,042
Net Earnings (loss)	77,508	(66,511)	(468,975)	(887,175)
Net Earnings (loss) per share – basic	0.01	(0.01)	(0.04)	(0.07)
– diluted	0.01	(0.01)	(0.04)	(0.07)

Liquidity and Capital Resources

The Company's principal sources of capital are cash flows from operations, borrowings under its credit facility, and equity financing. The Company's principal uses of cash are for operational requirements and capital expenditures.

Cash provided by operations for the year ended December 31, 2003 decreased by $1,441,000 from the prior year, resulting in a net use of cash for the period of $655,000. This was the result of the net loss for the period, whereas in 2002 collection of large receivables resulted in positive cash flow.

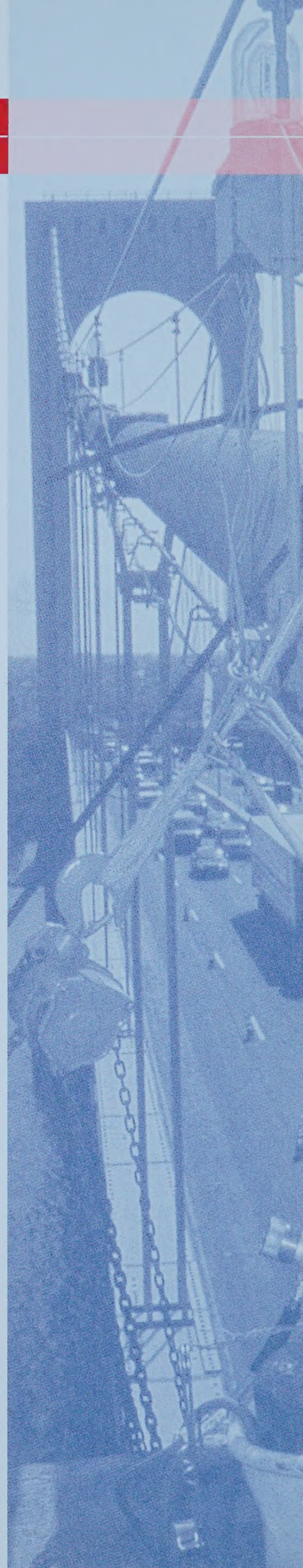
During 2003 the Company utilized its credit facility, and at year end bank indebtedness totalled $527,000. The Company's bank loan facility is authorized to a maximum of $750,000 with interest at bank prime rate plus 1%, secured by certain accounts receivable. Subsequent to year end the full amount of indebtedness was repaid.

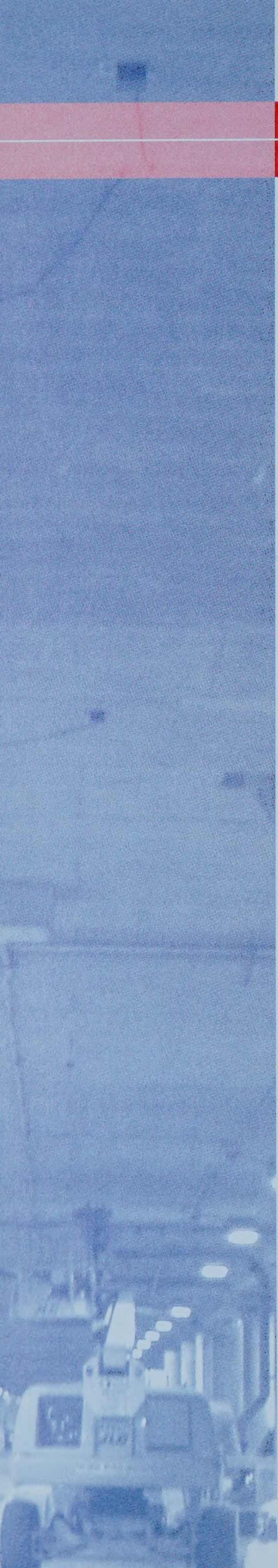
Cash flows from investing activities relate primarily to capitalized expenditures such as development costs for newly commercialized technology and the purchase of equipment. Pure will continue to invest in new technology and equipment.

Subsequent to year end the Company entered into an agreement for a private placement of 3,000,000 shares at $1.00 per share resulting in gross proceeds of $3,000,000. This amount included exercise of the full over-allotment provision. These funds will be used for new working capital requirements from increased commercial activity and for expansion of marketing efforts.

Accounting Policies

The Company applies numerous accounting policies in preparing the Consolidated Financial Statements. From time to time, the Company may either revise its existing accounting policies or adopt new ones as a result of changes to how the Company conducts its business or due to either new or





amended accounting standards as required by the Canadian Institute of Chartered Accountants (CICA). During 2003, the Company did not revise or adopt any new accounting policies. However, effective January 1, 2004, the Company will be required to revise one of its accounting policies due to a change in accounting standards as follows:

Stock Based Compensation

The Company has a stock based compensation plan that provides officers and certain employees the option of purchasing common shares of the Company. During 2003 the CICA amended the accounting standard related to stock based compensation to require expense treatment of all stock based compensation and payments at grant date, effective January 1, 2004. The previous standard provided the option of disclosing the effect on a pro-forma basis rather than expensing the award. For fiscal years commencing on or after January 1, 2004, GAAP will require all stock based compensation awards to be expensed.

Critical Accounting Estimates

In preparing the consolidated financial statements, various accounting estimates are made in applying the Company's accounting policies. The estimates require significant judgement on the part of management and are considered critical in that they are important to the Company's financial condition and results. The following represents the estimates that management considers most critical to the application of the Company's significant accounting policies.

Depreciation

The Company invests significantly in capital equipment, technology development and intellectual property. In accordance with the Company's accounting policy related to depreciation, these assets are depreciated over their estimated useful lives. In addition, development costs are only capitalized once commercialization of a product is certain.

Revenue recognition

Revenue received from system sales contracts is recognized when products are delivered and installed and the Company has fulfilled its obligations to the purchaser. Revenue received from monitoring and technical support contracts is recognized on a straight-line basis over the term of the contract. Revenue for long-term system sales and installation contracts is recognized by the percentage of completion method, which reflects more appropriately the extent of work accomplished on a long-term contract. The Company relies upon direct costs as being the best measure of performance in determining the extent of work accomplished related to a long-term contract.

Business Risks

Proprietary technology

Pure's success is dependent upon intellectual capital, including innovation, ideas, patents, proprietary software and technology. The Company relies principally upon copyright, trademark, patent and trade secret laws to protect its technology as well as non-disclosed proprietary information. There can be no assurance that these laws will be adequate to prevent third party development of the same or similar technology.

Competition

There are a limited number of competitors in certain niche areas where Pure provides service. Competition in the bridge and building segments for SoundPrint consists largely of engineering consulting firms providing destructive, non-continuous testing. Direct competition for SoundPrint and P-Wave in the water pipeline market segment does exist but is limited. The nature and number of competitors for PureLink is undetermined at this time, although we are aware of other companies that provide similar products. As previously announced, the Company is presently involved in litigation to defend its U.S. patents relating to SoundPrint against infringement by a U.S. private company.

Foreign exchange

The Company's operating results are reported in Canadian dollars. The majority of the Company's sales are generated in U.S. dollars and Euros. The majority of the Company's costs are incurred in Canadian dollars. The Company is therefore susceptible to foreign currency gains and losses.

Outlook

The outlook for fiscal 2004 is very strong. The Company has the largest value of work in its history already under contract for the upcoming year. In addition, the resources provided by the recently completed financing will allow the Company to pursue more opportunities, and will provide increased exposure in the financial markets. Management anticipates growth in both system sales and continuing monitoring and technical support revenues for the upcoming year.

Certain statements contained in this Annual Report, including, without limitation, statements containing the words "believes," "expects," "anticipates," "estimates," "intends," "plans" or similar expressions constitute "forward-looking statements." Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions and the Company's actual results could differ materially from those anticipated in these forward-looking statements.

Consolidated Financial Statements

February 18, 2004

Management's Responsibility For Financial Reporting

The consolidated financial statements are the responsibility of the management of Pure Technologies Ltd. (the "Company") and have been prepared in accordance with Canadian generally accepted accounting principles.

Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the consolidated financial statements, and other financial information presented elsewhere in this annual report.

Management is also responsible for maintaining a system of internal control designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board. The Committee meets periodically with management and the auditors to review significant accounting and reporting matters. The Audit Committee recommends the approval of the consolidated financial statements to the Board.

The consolidated financial statements have been audited on behalf of the shareholders by the independent auditors, KPMG LLP, in accordance with Canadian generally accepted auditing standards.

Peter O. Paulson
President and
Chief Executive Officer

Scott R. Jenkins
Chief Financial Officer

Auditor's Report

TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Pure Technologies Ltd. as at December 31, 2003 and 2002 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada

February 18, 2004

Consolidated Balance Sheets

As at December 31, 2003 and 2002

	2003	2002
Assets		
Current assets		
Cash	$ **169,648**	$ 913,782
Accounts receivable	**1,474,646**	1,295,741
Inventory (note 2)	**370,187**	203,338
Prepaids	**171,598**	161,848
	2,186,079	2,574,709
Property and equipment (note 3)	**813,037**	644,845
Patents and trademarks (net of accumulated amortization of $218,879; 2002 – $147,747)	**373,281**	337,364
Other assets	**116,303**	129,327
	$ **3,488,700**	$ 3,686,245
Liabilities and Shareholders' Equity		
Current liabilities		
Bank loan (note 4)	$ **526,876**	$ –
Accounts payable and accrued liabilities	**499,678**	372,015
Deposits on sales contracts	**258,710**	45,500
	1,285,264	417,515
Shareholders' equity		
Share capital (note 5)	**12,087,928**	12,087,928
Deficit	**(9,884,492)**	(8,819,198)
	2,203,436	3,268,730
Commitments (note 8)		
Subsequent event (note 10)		
	$ **3,488,700**	$ 3,686,245

See accompanying notes to consolidated financial statements.

On behalf of the Board:

James E. Paulson
Director

D.K. Seaman
Director

Consolidated Statements of Operations and Deficit

Years ended December 31, 2003 and 2002

		2003		2002
Revenue				
Sales	$	3,295,333	$	2,994,103
Monitoring and technical support		1,534,406		1,305,217
		4,829,739		4,299,320
Cost of sales		1,717,090		1,791,471
Gross margin		3,112,649		2,507,849
Operating expenses				
Marketing and promotion		1,192,334		1,050,779
General and administration		1,996,433		1,791,092
Research and development		295,357		577,869
Depreciation and amortization		422,209		397,481
Foreign exchange loss		271,610		35,781
		4,177,943		3,853,002
Net loss		(1,065,294)		(1,345,153)
Deficit, beginning of year		(8,819,198)		(7,474,045)
Deficit, end of year	$	(9,884,492)	$	(8,819,198)
Loss per share – basic and diluted	$	(0.08)	$	(0.11)
Weighted average number of shares – basic		12,498,666		12,498,666

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2003 and 2002

	2003	2002
Cash was generated from (used in)		
Operations		
Net loss	**$ (1,065,294)**	$ (1,345,153)
Adjustments for:		
Loss on disposal of property and equipment	**2,583**	1,988
Depreciation and amortization	**422,209**	397,481
Share purchase loan written off	**–**	14,453
Changes in non-cash working capital	**(14,631)**	1,717,466
	(655,133)	786,235
Financing		
Increase in bank loan	**526,876**	–
	526,876	–
Investments		
Purchase of property and equipment	**(521,852)**	(200,198)
Proceeds on disposal of capital assets	**–**	9,937
Patent and trademark expenditures	**(107,049)**	(119,965)
Decrease in other assets	**13,024**	18,149
	(615,877)	(292,077)
Increase (decrease) in cash	**(744,134)**	494,158
Cash, beginning of year	**913,782**	419,624
Cash, end of year	**$ 169,648**	$ 913,782

Cash interest paid during the year was $12,417 (2002 – $1,122).

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

1. Significant accounting policies

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

(a) Basis of presentation

The consolidated financial statements include the accounts of Pure Technologies Ltd. (the "Company") and Pure Technologies U.S. Inc. a wholly owned subsidiary. All intercompany balances and transactions have been eliminated.

(b) Revenue recognition

Revenue received from system sales contracts is recognized when products are delivered and installed and the Company has fulfilled its obligations to the purchaser.

Revenue received from monitoring and technical support contracts is recognized on a straight-line basis over the term of the contract.

Revenue for long-term system sales and installation contracts is recognized by the percentage of completion method based on estimated costs incurred.

(c) Property and equipment

Capital assets are stated at cost. Depreciation is provided by the straight-line method as follows:

Proprietary software	5 years
Pipeline equipment	3 years
Computer and other equipment	5 years

When the carrying amounts of capital assets, including patents and trademarks, less related accumulated provisions for income taxes, exceeds the net recoverable amount, the excess is charged to operations.

(d) Patents and trademarks

Patents and trademarks are stated at cost. Amortization is provided by the straight-line method as follows:

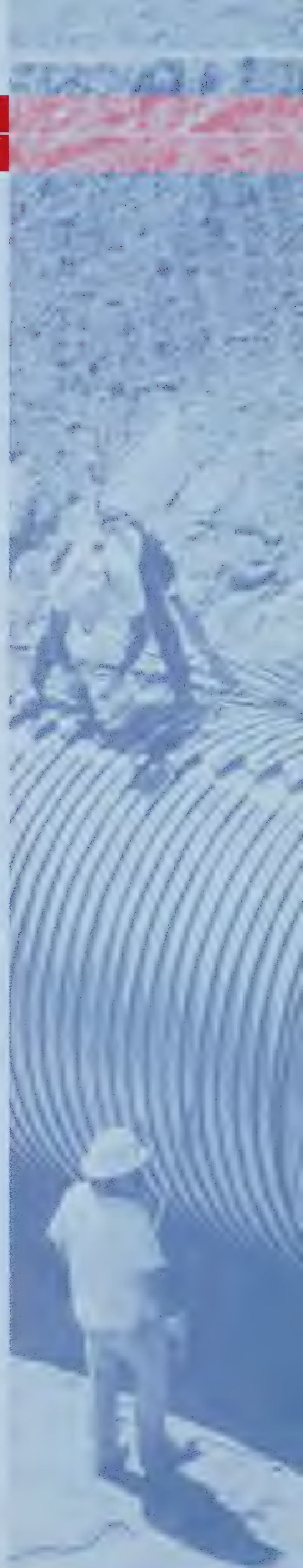
Trademarks	10 years
Patents	7 years

(e) Inventory

Inventory is carried at the lower of cost and net realizable value. Inventory is accounted for using the specific item method.

(f) Research and development costs

Research costs are expensed as incurred. Development costs related to specific products or processes that are proven to be technically and economically feasible are deferred and amortized over the useful life of the product or process.



(g) Translation of foreign currencies

The financial statements of foreign subsidiaries are translated to Canadian dollars following the temporal method whereby monetary assets and liabilities are translated at rates of exchange at the balance sheet date, non-monetary assets and liabilities and revenues and expenses are translated at rates prevailing when the related transactions occurred with all gains and losses charged to operations.

Transactions conducted in foreign currencies are translated to Canadian dollars at rates of exchange prevailing at the transaction date. Monetary assets and liabilities are translated at rates prevailing at the balance sheet date. Gains and losses are charged to operations.

(h) Income taxes

The Company provides for income taxes using the asset and liability method. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year and future income taxes are recognized for temporary differences between the tax and accounting bases of assets and liabilities and the benefit of losses available to be carried forward for tax purposes that are likely to be realized.

(i) Stock-based compensation plans

The Company follows the settlement method of accounting for stock based compensation and other stock based payments. As presently all outstanding stock options of the Company have been granted to employees of the Company, no compensation cost has been recorded for these awards. Consideration paid by employees on the exercise of stock options is recorded as share capital. No stock options were granted during the year ended December 31, 2003.

(j) Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated based on the treasury stock method, which assumes that any proceeds obtained on exercise of options and warrants where market value exceeds exercise price would be used to purchase common shares at the average price during the period. The weighted average number of shares outstanding is then adjusted by the net change. The weighted average number of shares outstanding for the year ended December 31, 2003 is 12,498,666 (2002 – 12,654,499). In calculating the loss per share, options totaling 1,397,050 (2002 – 1,459,550) were excluded from the dilution calculation as they were anti-dilutive.

(k) Use of estimates

The preparation of the financial statements requires management to make estimates and assumptions based on information available as of the date of the financial statements. Actual results could differ from these estimates.

(l) Comparative figures

Certain comparative figures have been reclassified to comply with the current year's presentation.

2. Inventory

Inventory includes raw materials of $174,522 (2002 – $167,524) and work in progress of $195,665 (2002 – $35,814).

3. Property and equipment

2003	Cost	Accumulated depreciation	Net book value
Proprietary software	$ 626,487	$ 377,690	$ 248,797
Pipeline equipment	796,938	769,939	26,999
Computer and other equipment	1,594,677	1,057,436	537,241
	$ 3,018,102	$ 2,205,065	$ 813,037

2002	Cost	Accumulated depreciation	Net book value
Proprietary software	$ 379,916	$ 307,493	$ 72,423
Pipeline equipment	794,721	763,160	31,561
Computer and other equipment	1,333,173	792,312	540,861
	$ 2,507,810	$ 1,862,965	$ 644,845

4. Bank loan

The Company has a demand bank loan facility authorized to a maximum of $750,000 secured by certain accounts receivable with interest at bank prime rate plus 1%.

5. Share capital

(a) Authorized

Unlimited number of voting common shares.

Unlimited number of preferred shares issuable in series.

(b) Issued

	2003		2002	
	Shares	Amount	Shares	Amount
Balance, beginning of year	12,498,666	$12,427,778	12,483,666	$12,413,325
Share loan adjustment	–	–	15,000	14,453
	12,498,666	12,427,778	12,498,666	12,427,778
Less: Loans receivable	–	(339,850)	–	(339,850)
Balance, end of year	12,498,666	$12,087,928	12,498,666	$12,087,928

At December 31, 2003 the Company had loans receivable from employees relating to the purchase of 140,000 (2002 – 140,000) common shares for consideration of $339,850 (2002 – $339,850). The loans are non-interest bearing, due on demand and secured by the shares issued.

(c) Stock options

The Company has authorized 1,397,050 common shares for issuance to officers and employees pursuant to stock option agreements. The exercise prices range from $0.70 to $3.00 and the options expire on or prior to December 16, 2007. Options vest evenly over an 18-month period from date of grant.

		2003		2002
	Number of shares	**Weighted average exercise price**	Number of shares	Weighted average exercise price
Stock options outstanding, beginning of year	**1,459,550**	**$ 1.51**	1,454,550	$ 1.65
Granted	**–**	**–**	200,000	0.70
Cancelled/expired	**(62,500)**	**1.70**	(195,000)	1.76
Stock options outstanding, end of year	**1,397,050**	**$ 1.50**	1,459,550	$ 1.51
Exercisable at December 31	**1,330,383**	**$ 1.54**	1,071,217	$ 1.76

Range of exercise prices outstanding at December 31, 2003:

Range of exercise prices outstanding	**Number outstanding**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Number exercisable**	**Weighted average exercise price**
0.70 to 0.99	**765,000**	**3.3 years**	**$ 0.86**	**698,333**	**$ 0.87**
1.00 to 1.99	**19,550**	**0.9 years**	**1.92**	**19,550**	**1.92**
2.00 to 3.00	**612,500**	**2.1 years**	**2.29**	**612,500**	**2.29**
	1,397,050	**2.7 years**	**$ 1.50**	**1,330,383**	**$ 1.54**

(d) Pro-forma disclosure

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. During 2003 no stock options were granted. The weighted average fair value of stock options granted during 2002 was $0.26 per option using the following weighted average assumptions: zero dividend yield; expected volatility of 30%; risk-free rate of 5.0%; and expected life of 5.0 years. Had the Company accounted for employee stock options issued using the fair value based method, the Company's pro forma net loss and loss per share for 2003 and 2002 would not have been materially different.

6. Income taxes

The following is a reconciliation of the income tax expense calculated at combined Federal and Provincial rates with the income tax expense in the consolidated statement of operations and deficit:

	2003	2002
Combined federal and provincial income tax rates	**37.1%**	39.2%
Income taxes (reduction) at combined Federal and Provincial rates	**$ (395,224)**	$ (527,300)
Tax effect of		
Non-deductible expenses	**2,917**	3,136
Valuation allowance	**392,037**	524,164
	$ –	$ –

Significant components of the Company's future income tax assets and liabilities as at December 31 were as follows:

	2003	2002
Future income tax assets:		
Operating losses	**$ 3,037,428**	$ 3,516,931
Research and development expenditures	**668,844**	551,713
Share issue expenses	**35,601**	80,437
Capital assets	**68,406**	78,811
	3,810,279	4,227,892
Valuation allowance	**(3,600,237)**	(4,078,325)
	210,042	149,567
Future income tax liabilities:		
Intangible assets	**(210,042)**	(149,567)
	$ –	$ –

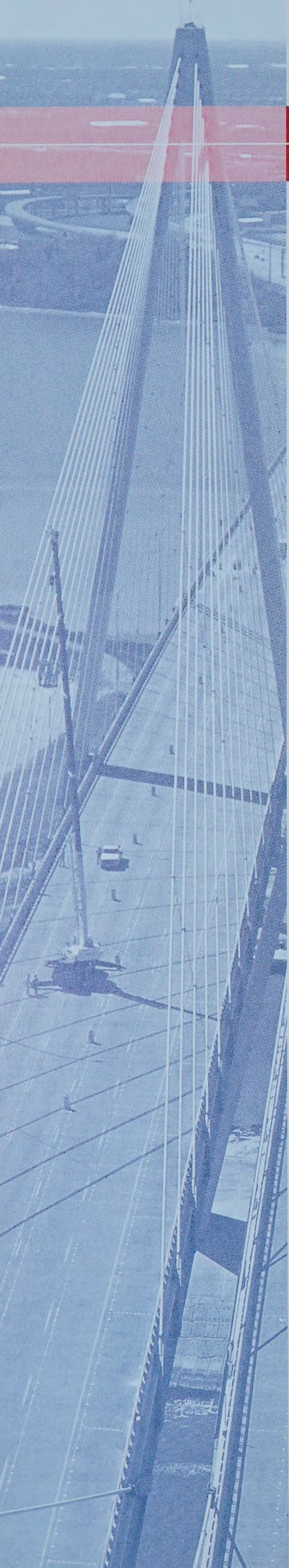
The Company has income tax losses of $8,753,396 which expire in the years 2004 to 2009.

7. Financial instruments

The carrying amount of accounts receivable, accounts payable and accrued liabilities and deposits on sale contracts approximates their fair value due to the short-term maturities of these instruments. The Company's bank loan bears interest at a floating market rate and accordingly the fair market value approximates the carrying value.

The Company is subject to a significant concentration of credit risk as a large portion of accounts receivable are from one customer. The Company has established letters of credit with overseas financial institutions for the full amount of this balance.

The Company is exposed to foreign exchange fluctuations as the majority of its sales revenues are denominated in U.S. dollars.



8. Commitments

The Corporation is committed to payments under operating leases for office premises and vehicles through 2007 in the amount of approximately $475,000. Annual payments are:

2004	$	131,279
2005		155,585
2006		160,950
2007		26,825

9. Segmented information

The Company provides monitoring equipment and technical support to customers through its geographical marketing segments. The system sales and monitoring and technical support revenue is as follows:

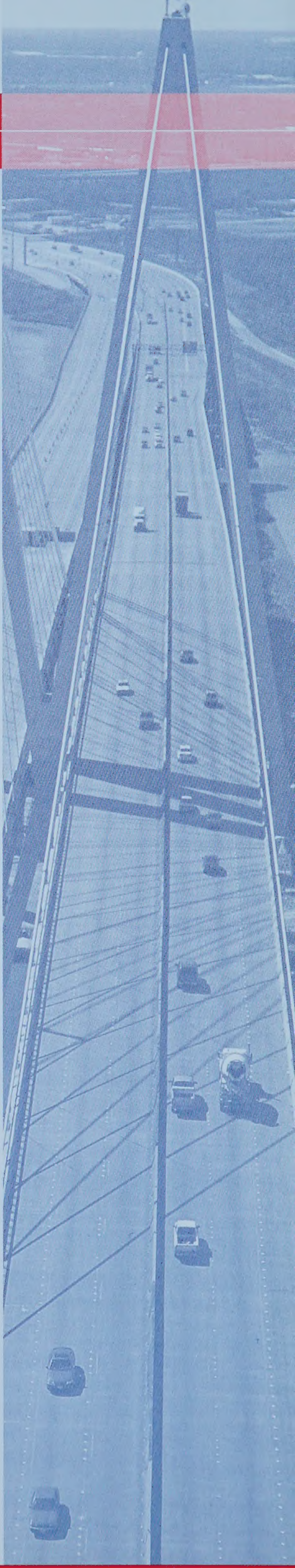
		2003		2002
Canada	$	**402,536**	$	283,960
United States		**3,038,608**		2,864,469
Europe		**167,113**		207,780
Africa and other		**1,221,482**		943,111
Total	$	**4,829,739**	$	4,299,320

Approximately 23% of revenue for the year ended December 31, 2003 (2002 – 22%) is from one client.

10. Subsequent event

Subsequent to year end the Company entered into an agreement for a private placement of 2,500,000 shares at $1.00 per share for gross proceeds of $2,500,000. The private placement includes an over-allotment provision for an additional 500,000 shares, for additional gross proceeds of $500,000. The underwriters will receive a cash commission and underwriters' warrants exercisable for common shares equal to 10% of the shares sold under the offering. The agent's warrants will be exercisable at a price of $1.00 per common share for a period of 18 months from the closing date.

Corporate Information



Board of Directors*
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James E. Paulson
Daryl K. Seaman
Jean-Pierre Marchand-Arpoumé

Officers
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Chairman of the Board

Peter O. Paulson
President & Chief Executive Officer

John F. Elliott
Vice President & General Manager

Scott R. Jenkins
Chief Financial Officer

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Calgary, Alberta T2P 3B6

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**Mr. John J. Fleming, Director, passed away on March 3, 2004.*

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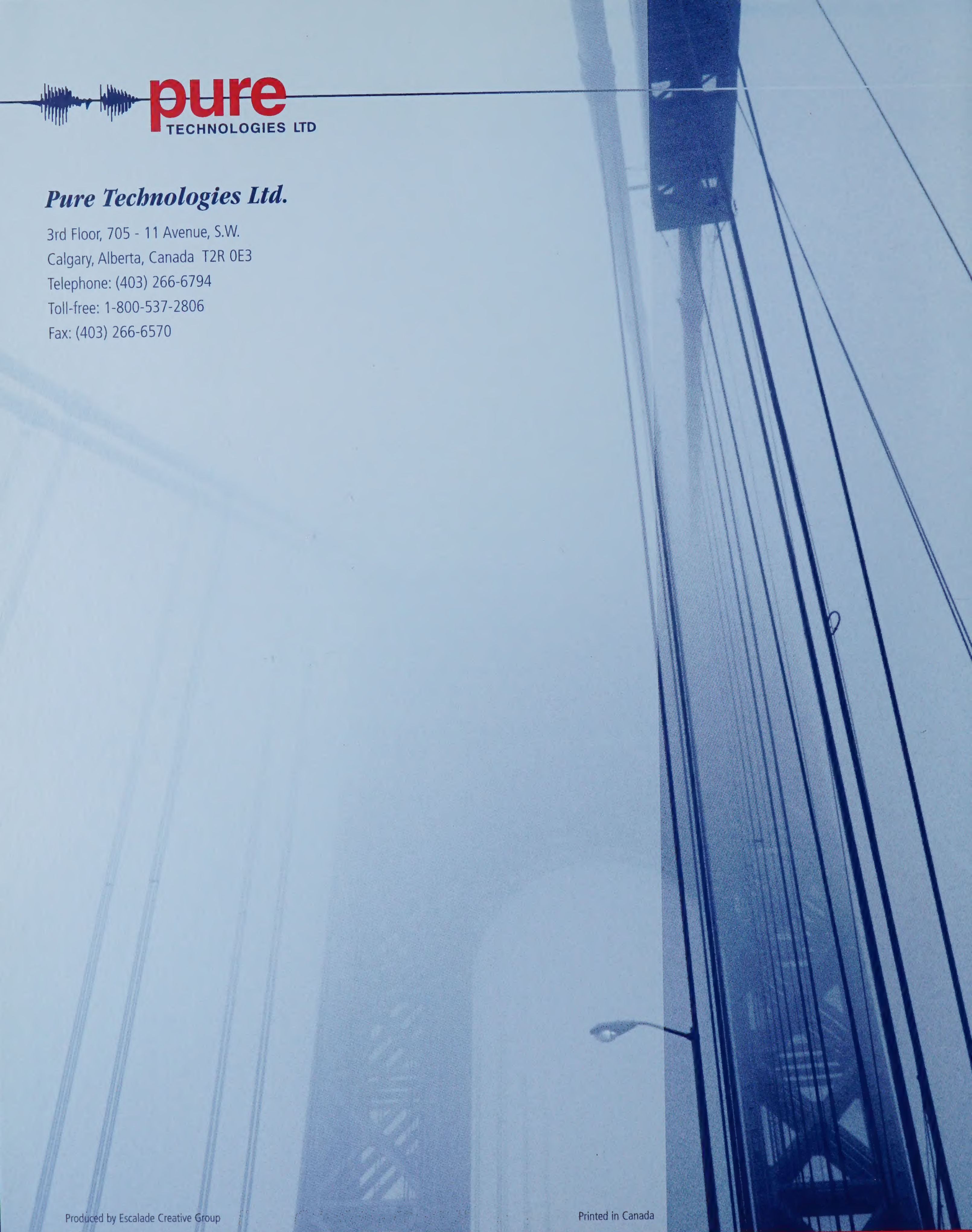
Annual General Meeting
Thursday, May 13, 2004
2:00 PM
3rd Floor, 705 - 11 Avenue, S.W.
Calgary, Alberta



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